RECOMMENDATIONS FOR UNEMPLOYMENT INSURANCE REFORM

A Brief presented by
The Government of Alberta
to
The Commission of Inquiry on
Unemployment Insurance
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Alberta

I Introduction

The Province of Alberta has prepared this discussion paper outlining its views on the Unemployment Insurance program for the Commission of Inquiry on Unemployment Insurance. The brief first lists unemployment insurance issues identified by the Commission as being of prime importance. It then discusses the principles to which Alberta believes unemployment insurance should adhere and examines how these principles relate to the issues raised by the Commission. Finally, the paper concludes with Alberta's recommendations to the Commission.

II Unemployment Insurance Issues Identified by the Commission

After due consideration and analysis, Alberta finds itself in basic agreement with the Commission that the following issues need to be addressed:

(i) Program coverage and conditions of insurability, entitlement and eligibility;

(ii) The benefit structure;

(iii) Funding responsibilities of employers, employees and the federal government;

(iv) The terms and conditions of the unemployment insurance funding formula;

(v) The program's developmental uses (Section 37, 38 and 39 of the Unemployment Insurance Act);

(vi) Ways in which unemployment insurance may be used to further a claimant's re-entry into and adjustment to the labour market;

(vii) The requirements to be met by claimants to receive benefits; and

(viii) Administrative measures needed to maintain or improve the integrity of the program.

III Alberta's Principles Regarding Unemployment Insurance

The Alberta government has long recognized and shared the special importance which Albertans place on the possession of meaningful, secure employment. The higher-than-usual rates of unemployment in Alberta during recent years have been a matter of concern to every member of the Alberta government. This concern and desire to assist the unemployed has resulted in the generous allocation of monies by the Alberta government for job creation and training programs such as the Alberta Youth Employment and Training Program, the Alberta Training Program, and the Alberta Wage Subsidy Program.

The following principles are those which the Alberta government believes are fundamental to an unemployment insurance program which will assist Canadians who are experiencing temporary unemployment to find meaningful, productive employment opportunities.

(1) The unemployment insurance program should be reformulated so that it once again fulfils its original function: to serve strictly as a form of insurance for those Canadians who, for a variety of reasons, are experiencing short-term unemployment (a year or less in duration).

At the time of its inception in 1940, the unemployment insurance program was based on a strict adherence to insurance principles and objectives. It was designed to enhance the social and economic security of select Canadian workers through the provision of income protection between leaving one job and finding another. The exclusion from coverage of workers in high unemployment industries and those whose permanent jobs were virtually assured, meant that only 42 percent of the labour force in 1940 were protected under the program.

Since 1940, dramatic changes have occurred to the unemployment insurance program, particularly after 1971 and the passage of the new Unemployment Insurance Act. Under the new Act, the proportion

of insured workers rose to 96 percent of salaried and hourly paid workers; sickness, maternity and retirement benefits were provided for the first time under the unemployment insurance program; minimum weeks of insurable earnings were decreased to allow easier access to the program; and benefits were enriched. The result of these program alterations, together with a changing labour market and rising unemployment, was a drastic rise in unemployment insurance program expenditures from $730 million in 1970 to $3.3 billion in 1975, and up to $11.2 billion by 1984.

The myriad of changes introduced to the unemployment insurance program since its inception have caused a drastic shift in emphasis away from its original, insurance-based principles. A move to restore the primacy of insurance principles could result in significant savings to the general taxpayer, employers and employees.

(2) The unemployment insurance program and its administrative system are overly complex and in need of simplification.

The unemployment insurance program has become a source of confusion and misunderstanding by the Canadian public due, in large part, to a multitude of complicated regulations. The system which administers unemployment insurance has grown to the extent that now 23 000 workers administer unemployment insurance and employment service programs, while the administrative cost of unemployment insurance rose to approximately $1 billion in 1984.

(3) Greater emphasis must be placed on encouraging individual initiative with regard to job retention, job search and labour force mobility.

The current program may be encouraging short work attachments and inhibiting labour market mobility, thereby increasing unemployment. Many unemployed Canadians may not be able to

carry out effective job searches, mainly due to a lack of knowledge about job search techniques. Much of the cause of ineffective job search may result from the steady reduction of employment counselling services provided to the unemployed by Canada Employment Centres in recent years.

IV Alberta's Principles as They Relate to Issues Raised by the Commission

(1) Unemployment insurance based on insurance principles

Issue (i) Program coverage, conditions of insurability, entitlement and eligibility

Under an insurance-based system, it is envisaged that benefits would be restricted solely to those experiencing short-term unemployment (a year or less in duration). Consideration would have to be given to an alternate means of providing, when needed, maternity, adoption, sickness and retirement benefits. A move toward an insurance-based system also necessitates a review of the provisions which enable those who voluntarily quit their jobs to collect benefits and allow claimants to reject reasonable employment opportunities merely on the basis that the job is deemed unsuitable.

Issue (iii) Funding responsibilities of employers, employees and the federal government

As a result of enhanced benefits and the high number of unemployed, the contributors to the unemployment insurance fund have been forced to make increasingly larger contributions. The small business community, in particular, has found itself in more difficult circumstances. The burden of high unemployment insurance premiums may have constrained these firms' ability to hire additional staff. A return to insurance principles would result in lower premiums, reducing employers' payroll costs and increasing employees' take-home pay.

Issue (iv) The terms and conditions of the unemployment insurance funding formula

Under the present division of unemployment insurance costs, employers and employees finance special benefits for maternity, sickness and retirement. A commitment to insurance-based

principles would remove the provision of special benefits under the program and result in substantial savings, particularly for employers and employees.

Issue (v) Developmental uses of unemployment insurance

Alberta recognizes the critical importance of training and job creation, as can be witnessed by its generous allocation of monies for its manpower programs. It is also aware that training assistance provided under unemployment insurance, particularly that which apprentices receive while taking the institutional portion of their training, is critical to future labour market requirements. However, developmental uses of unemployment insurance for purposes such as training, work sharing and job creation go far beyond insurance-based principles and could be more appropriately addressed through the Canadian Jobs Strategy.

(2) The need to simplify the unemployment insurance program and its administrative system

Issue (ii) The unemployment insurance benefit structure

At present, there exists a three phase benefit structure under which benefits are payable: an initial benefit, a labour force extended benefit and a regional extended benefit. This complicated structure serves to perpetuate many Canadians' lack of understanding of the unemployment insurance program.

Under the present system, the weekly benefit received by a claimant is equal to 60 percent of his/her average weekly insurable earnings during the last 20 weeks of his/her qualifying period. Considering the growing deficit of the unemployment insurance fund, it would seem appropriate for the Commission to examine the implications of a modest reduction in the benefit rate percentage.

Issue (iii) Funding responsibilities of employers, employees and the federal government

A simpler program would result in lower administration costs and greater savings to employers and employees.

Issue (viii) Administrative Measures Needed to Maintain or Improve the Integrity of the Program

The system in place to administer the unemployment insurance program appears overly complex and inflexible when dealing with the changing needs of unemployment insurance claimants. One means of simplifying the system would be to reduce, in consultation with the provinces, the existing 46 unemployment insurance administrative regions across Canada to a more manageable number.

(3) Increase the emphasis upon encouraging individual initiative with regard to job retention, job search and labour force mobility

Issue (i) Program coverage and conditions of insurability, entitlement and eligibility

Section 40 of the Unemployment Insurance Act describes the circumstances under which a claimant is disqualified from receiving benefits. One of the grounds for disqualification is neglecting to avail oneself of an opportunity for suitable employment. However, Section 40 also discusses situations in which unemployment insurance claimants may refuse offers of reasonably good jobs. Such apparent contradictions in the Act may negatively affect individual job searches by allowing claimants to wait for the best possible job, rather than taking a suitable job.

Issue (vi) The ways in which unemployment insurance may be used to further a claimant's re-entry into and adjustment to the labour market.

At present, there is minimal assistance or monitoring of unemployment insurance claimants' job searches by Canada Employment Centres (CECs). Much of the reason for this is due to declining emphasis on counselling at CECs, which has contributed to poor job search techniques utilized by claimants.

Issue (vii) The requirements to be met by claimants to receive benefits

The loose linkage which currently exists between benefit periods and the minimum number of weeks of required insurable earnings means that there is little incentive to keep working after the minimum entrance requirement for the region has been met. In addition, since many seasonal workers in high unemployment areas can receive in the form of unemployment insurance benefits what amounts to a guaranteed annual income for as little as 10 weeks of work a year, there is little impetus for these workers to seek permanent employment or relocate to an area with better employment prospects.

(1) The Alberta government believes that the developmental uses of unemployment insurance for job creation, work sharing and training might more appropriately be incorporated into programs operating under the recently implemented Canadian Jobs Strategy (CJS), which could involve reduced costs to Canadian taxpayers. The CJS has been designed to address job entry/re-entry, job development and the training of workers beset by structural unemployment. It would, of course, be necessary to ensure that an elimination of developmental uses under the unemployment insurance program is offset by the modification of CJS's terms and conditions and program guidelines to accommodate these developmental uses.

(2) The use of unemployment insurance funds for training allowances is inappropriate. Training allowances, however, should continue to be paid by the federal government but not out of the unemployment insurance fund.

(3) Examination should be given to alternative methods of providing maternity, adoption, sick leave and retirement benefits to those who need such assistance, other than through the unemployment insurance program. For example, the proposed Program for Older Worker Adjustment could serve as a model for mechanisms to provide these special benefits. This program to assist older workers who have been permanently displaced in the labour market, has been designed to complement the unemployment insurance program and to assist those with the greatest need.

(4) A primary goal of the Alberta government is to promote long-term employment, job search and labour force mobility. Therefore, the following options should be considered for adoption under the unemployment insurance program to meet these objectives:

(i) Enhancing the mobility program administered by CEIC to enable unemployed workers to relocate to areas with better opportunities;

(ii) Tying duration of benefits more directly to the actual amount of time worked as a means of providing a greater incentive to retain employment; and

(iii) Investigating any further administrative complexities with a view to removing any remaining barriers to mobility.

(5) The overly complex unemployment insurance program is in dire need of simplification. Simplifying the program could involve such measures as:

(i) Decentralizing program administration to ensure greater effectiveness;

(ii) Encouraging better coordination and communication than currently exists between regional offices administering the unemployment insurance program;

(iii) Reducing the number of existing unemployment insurance administrative regions to a more manageable number; and

(iv) Simplifying the three phase benefit structure by reducing it to a single phase.

(6) It appears that some unemployment insurance claimants may be taking advantage of Section 40 of the Unemployment Insurance Act, which provides guidelines determining when employment is unsuitable. Section 40 should be carefully reviewed with a view to eliminating ambiguities which allow for abuse of unemployment insurance.

(7) The federal government should continue to stress the importance of vocational counselling for those unemployed who are contemplating retraining, relocation or occupational change. However, it is suggested that the Commission consider the alternative of private sector firms carrying out this vocational counselling.

(8) Those who presently quit a job voluntarily, are fired for misconduct or refuse a suitable job are denied benefits for a maximum of six weeks. Alberta would like to see this provision reviewed with an aim to making it more restrictive, either by imposing longer delays in receiving benefits or reducing the amount of benefits received.

(9) Given the current high expenditures of the unemployment insurance program, careful attention must be given as to the means by which program costs could be reduced. A measure proposed by the MacDonald Commission which might effect some cost reduction calls for a modest decrease in the rate of weekly benefits payable to claimants, which currently equals 60 percent of a claimant's average weekly insurable earnings during the last 20 weeks of his/her qualifying period. A second means of reducing expenditures lies in the regulation under which claimants whose annual net incomes are over the upper income limit (equal to 1.5 times the maximum yearly insurable earnings, or $35 880 for the 1985 tax year), are required to pay back, through their income tax return, 30 percent of benefits received. The Commission should consider the effect which lowering the upper income limit and/or increasing the percentage of benefits to be repaid would have on unemployment insurance costs.